JPRS: 4405

17 February 1961

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- Indonesia -

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JPRS: 4405

CSO: 1224-S/a

BASIC CONDITIONS FOR THE STABILIZATION OF PRICES

-Indonesia-

[Following is the translation of an article by F. Runturambi, in Harian Rakjat (People's Daily), Djakarta 29 September 1960, page 3.]

On August 25 of this year the government took monetary measures following up the monetary reorganization of last year. These measures are essentially meant to:

1) lower the price of food and clothing and other essentials;
2) stimulate exports and increase foreign assets;
3) import more goods — some against lower and others against higher exchange rates.

The present financial measures that have already been a month in execution are contained in four Government Decision Reform Laws, two Government Decisions and one Presidential Decision. Now arises the question: Can lowering and stabilizing of prices really be attained? Before we offer an answer to this question we must first inspect a little the important aspects of the present financial measures.

The essential points of the second series of financial measures.

The present financial steps are fundamentally a simplification of the many kinds of government levies on export and import. Regarding export the collection of PUEKS [Pemungutan Eksport — Levy on Export], the bea berat [heavy tax] and the statistical tax have been left out. All that is left is called bea keluar [outgoing tax] of 10%. Regarding imports, levies such as PUIM [Pemungutan Import - Levy on Import], bea berat, statistical tax and pedjak masuk [incoming duties] based on the sales tax of 1951 have been left out and replaced by bea masuk [incoming tax] of a size depending on the kind of article, as follows:

Articles of Group I, incoming tax 0%; imports against a rate of exchange of $ 1.00 equals 45.00 rupiahs.

Group II, 20% incoming tax; import against a rate of exchange of $ 1.00 equals 45.00 rupiahs.

Group III, 30%; import against a rate of exchange of $ 1.00 equals 200.00 rupiahs; but incoming tax is collected against a rate based on $ 1.00 equals Rp. 45.00 rupiahs.

Group IV, 100%; import against rate of exchange of $ 1.00 equals 200.00 rupiahs; but incoming tax is collected against a rate based on $ 1.00 equals 45.00 rupiahs. Generally speaking, no foreign assets will be made available for import of luxury items, and their import will be limited.

To Group I belong food and clothing and items important for the development, such as rice, manure, etc., that used to be free of PUIM. To Group II belong other articles of food and clothing or other articles important for development. To Group III belong items other than food, clothing or items important for development that do not belong to Group IV. For these items the government still makes foreign assets available. Goods that therefore belong to Groups III and IV are mentioned on the "free list" that are not articles of food, clothing or development.

The second group of financial measures determines also the component of the value of articles of Group I and II subject to tax and subdivides them in three groups: Group A subject to 10%, Group B 25%, Group C 60%. Goods of Groups III and IV are not subject to an arrangement of component values. The government has determined component values for Group I and II to thwart speculation, because without such a component, prices will suddenly drop.

These financial measures also define free import foreign assets, they determine that assets not earmarked as wealth of the nation can be used to import important articles for industry, such as spare parts, etc.

Except for the above mentioned fundamental problems which have a rather strong direct influence on the level of landed cost and sales price of the importer, there are also various instructions. As retribution on export and import (1%), transfer tax (100%), tariffs for guarantee money for national commercial enterprises, band credit and liquidity, the decision to change the rate of exchange for foreign oil companies from $ 1.00 equals 36.00 rupiahs to $ 1.00 equals 45.00 rupiahs, etc. The assessment on extra profit on import articles is still conducted in lower percentages, but how much, exactly, is still not clear.

Influences on the price of goods.

With this second group of financial measures, the government is actually more trying to overcome the bad results of the financial reorganization of last year. It is more in the nature of eliminating or replacing the original financial decisions on import and export that have been proved ineffective in actual practice. According to the radio speech of the minister of finance of 24 August this year, taxation on the value of articles in an artificial manner must be stopped.

Seen from the intentions of the government to lower the prices by moderation in the collection of import and export taxes, this second group of financial measures is good, although rather late. We say rather late since lowering the price of import articles by about 20% after the price of food and clothing has definitely risen 100% in comparison with the situation before the reorganization of last year does not improve

the purchasing power of the people very much, especially that of the working classes which has been declining steadily. At present we do not notice an increased flow of purchases of the masses on the markets, although the prices of import articles have gone down somewhat. This is not because the people do not need the goods, but because their purchasing power is very low.

To meet the hopes of the workers, the government must persist in lowering the price of food, clothing and development much more. We shall feel a further decline in prices when there are no component values and when we move important articles formerly of Group III, IV or V of PUIM to Group II of the present new arrangement. For instance, textiles for women's clothing of artificial silk which belonged to Group IV under the system of PUIM now belong to Group I entry 1, which has caused the landed price to go down 55%. In this manner we get an amount of food, clothing and development articles of which the import prices go down as a result of the new financial measures. In addition to these, there are also articles of food, clothing and development of which the price remains the same, or declines very little, and there are even increases, as with the price of newsprint.

Fundamental problems of price stabilization.

To reach a generally lower price level for not just a short time, the fields of production and distribution need great attention to make an improvement of the present economic situation possible. This fundamental problem has not yet been analyzed very well.

The problem of ever-increasing prices must not only be looked at from a financial point of view. There are many factors that have all this time been sources of price increases, as for instance:

1) Devaluation of the rupiah, with its different rates of exchange expressed in foreign standards in a direct or indirect manner.

2) A stock of articles of food, clothing and development insufficient to satisfy the minimum requirements of the society.

3) Speculation and smuggling in the present commercial world going berserk.

4) Assessments on profits in excess of a certain level on articles of importation.

5) Increase of official prices of certain goods and of official rates of transportation, electricity, taxation, etc.

Many of the above mentioned sources of price increases have not yet been overcome. The army's police actions are already rather intensive, but have not yet resulted in economically favorable conditions, and price stabilization cannot be reached, and the economic decline cannot be overcome. For this reason, this second group of financial measures is insufficient to be successful in lowering the level of prices. We also need fast and appropriate measures in other fields, especially measures in the fields of production and distribution, which can stabilize prices and prevent new price increases.

Among fast and necessary steps to lower the price of articles of food, clothing and development in the financial sphere are elimination immediately of measures on component value and assessment on excess profit. Such steps can quickly improve the purchasing power of the people and propel the development of production in the country. Naturally, the sources of income of the country have to be shifted from direct and indirect taxes to the productive sector by instituting a concrete program to increase productivity.

Regarding the free available foreign assets for imports, we must pay attention to several factors that can damage the government itself if no appropriate measures are taken. These assets may be abused by smugglers to promote illegal transactions with foreign countries. This would hamper the plan to promote export, recorded as the harvest and wealth of the nation. The simplification of government assessments on export cannot yet cause the disappearance of the disparity in the price of these export articles inside and outside the country.

Basically, this second series of financial measures will only attain price stabilization when they do not remain limited to purely financial steps, but extend to other economic spheres for the purpose of eliminating the sources of price increases. We need a sufficient supply of food and clothing, with the stress on efforts to increase the production in the country. The purchasing power of the people must be increased by improving the productivity, as well as by efforts to reduce prices.

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